

EXECUTIVE SUMMARY

The Bonneville Power Administration (Bonneville/BPA) is a federal agency that transmits and markets the electricity generated by dams on the Federal Columbia River Power System. Bonneville has contractual relationships with over 100 public utilities in the Pacific Northwest, all of whom rely on Bonneville to provide some portion of the power they require. Bonneville encourages its customer utilities to support energy efficiency projects in their service territories by providing funding mechanisms for those utilities to offer incentives for projects that save energy. One of these mechanisms is the Conservation Augmentation Program (ConAug), through which utilities enter into bilateral contracts with Bonneville to provide conservation resources.

Since September 2004, Bonneville has been engaged in a collaborative conservation planning process to solicit recommendations for the post-2006 conservation program structure (covering the 2007-2009 rate period). In late April 2005, Bonneville contracted with Research Into Action, Inc. and Energy Market Innovations, Inc. to conduct an evaluation of the ConAug program. This evaluation focused on customer utility response to the program and a review of best practices for similar programs. The focus of the evaluation was to identify the perceived strengths and attractive features of the program and to clarify the perceived barriers and what solutions are adequate to address them.

The research was conducted in May and early June 2005, and included: interviews with seven program staff; an email survey of 41 stakeholders, including customer utilities, Bonneville staff and third-party implementers; and in-depth interviews with a sample of 17 customer utilities identified through the email survey.

The evaluation identified strengths and barriers for the program, as well as a series of recommendations that could improve customer response to the program.

FINDINGS

Program Strengths

From the perspective of the customer utilities, there are several strengths of the program:

- ConAug has had relatively stable funding for close to five years.
- Bonneville energy efficiency representatives and engineers received high praise from the utility contacts.
- Participants have used ConAug funds to keep their energy efficiency programs running during the tumultuous 2000-2005 period.
- ConAug and its predecessor the Invitation to Reduce Load through Conservation (IRLC) contain a path for creative and custom projects that works regardless of utility territory characteristics.
- Utilities see that Bonneville has tried in its own way to be responsive to their needs.
- The M&V requirements ensure credible savings.
- The tools are useful.

There are also strengths of the program from Bonneville program staff's perspective:

- Bonneville's oversight activities do appear to help the agency avoid instances of gaming and fraud, and allow for clarification of the rules in a way that has not been burdensome to participating utilities.
- Bonneville has been able to make modifications to the program design based on experience.
- The program is viewed as highly cost-effective.

Program Barriers

The primary barrier to participation in the ConAug program is the decrement requirement for some utilities. All other issues within the program are really secondary in importance relative to this one, which only affects the non-load-

following, decrement-eligible utilities. Within the decrement issue, there are three important elements including:

- **Decrement Definition and Implementation Guidelines** – Among both participants and nonparticipants, there is considerable uncertainty regarding how the decrement is defined and actually works. There is not, at present, a single cogent explanation of the decrement policy that has been made available to the market.
- **Legitimate Concerns about Fairness** – To customer utilities, it appears that Bonneville gets most of the potential benefit resulting from ConAug, purchasing conservation for 12¢-16¢ and selling it on the market for whatever the market will pay, possibly in excess of its purchased price. The measure life for which Bonneville is willing to pay is 10 years. Utility contacts note that this affects longer-lived measures by discounting long-term savings. This is particularly an issue in residential measures.
- **Long Term Repercussions from the Decrement** – These concerns reflect two things: first a lack of certainty as to what Bonneville means in statements about how they will take the decrement and treat it in the future, and, second, a lack of trust that Bonneville will permit utilities, in future PSAs, to purchase power equal to or in excess of historical purchases once they take a decrement.

In addition to concerns about the decrement, there are a few other barriers. In particular there are some concerns about M&V, project documentation requirements, freeridership and the amount of the incentive. These concerns were more obvious in responses to the e-mail survey rather than the in-depth interviews and affect nonparticipants more than participants. The in-depth interviews revealed that there is general acceptance of these requirements; however some modifications would be welcome.

ConAug has consistently been perceived as more top-down than collaborative. There are, based on the benchmarking research, a variety of opportunities to further simplify or streamline ConAug which could improve perceptions of the program:

- Other programs have developed ways to reduce M&V through sampling for more simple measures.

- Other programs use M&V to determine payment, advancing a portion of the incentive at different stages and reserving 25-33% for a final payment after M&V.
- Other programs modify program requirements for each application period and define the “rules” for a set period of time, allowing for the program to be more responsive to market conditions.
- Other programs have found it is very important to clearly detail the rules and procedures so that all parties know exactly what is expected of them.

RECOMMENDATIONS

The evaluation confirms that there is value for the utilities to have a bilateral contract with stable funding in order to acquire conservation for the region. It also appears that Bonneville needs a program that is more flexible than ConAug, with paths that allow for different utilities to sell Bonneville conservation in the manner that works best for their market.

Recommendation 1: Determine Whether a Bilateral Contract Program Should be Attractive to All Customer Utilities

The decrement is the major problem from the perspective of non-load-following utilities and from many of the staff working with these utilities. There appear to be legitimate issues with the decrement because it shifts the benefits to Bonneville without compensation to decremented utilities. Yet Bonneville is reasonable in concerns about utilities getting the benefits if there is no decrement. Bonneville has expressed the view that the decrement will be included in future bilateral contracts.

If Bonneville wishes to have increased participation by non load-following utilities, there are two primary choices:

- Eliminate the decrement.

Or:

- Keep the decrement, but find a way to ensure that the utilities and Bonneville share the risk and rewards more equitably.

If Bonneville does not wish to increase participation by non-load-following utilities, the decrement can be maintained. However, it will be important to clarify exactly what the decrement means through an improved communication strategy.

Recommendation 2: Develop a Communication Strategy

This recommendation is also important for the program as a whole, irrespective of the decrement. Bonneville should have a well-thought-out communication strategy and should systematically test the program components and the communication materials (e.g., utilizing focus groups, in-person meetings) among the utilities.

Recommendation 3: Consider Developing Program Paths for Different Utility Types

At present, the program structure is focused on customer segment offerings (i.e., residential, commercial). There may be merit to considering tailoring the program offerings more along the lines of the types of utilities that will be offering the programs. A package of ConAug programs might include the following:

- **Large Non-Load-Following Utility Package** – This package would be very customized, designed specifically to reflect the infrastructure that exists at these utilities.
- **Small Load-Following Utility Package** – This package would include standard offer components with deemed savings, plus a custom element that would include the provision of as-needed technical resources to these utilities.
- **Small Non-Load-Following Utility Package** – This package be just like that for load-following utilities but would also include a decrement modeling component that would assist these utilities in understanding the impacts that their system would experience on a project-by-project basis.

Recommendation 4: Consider Revisions to Incentive Levels.

Consistency is important to the utilities in marketing the program and developing projects. Several utilities also made the argument that longer measure lives should be valued appropriately, and this is worthy of consideration by Bonneville as it establishes incentive levels.

Recommendation 5: Consider Refinements to Process and Protocols.

There is a variety of smaller refinements to the processes or protocols of the program that should be considered in a future program using bilateral contracts:

- Within the custom and standard options, where energy savings estimates are made or approved by Bonneville engineers, there should be a recognition of shared responsibility for M&V findings.
- There should be clear protocols for Bonneville and its agents regarding involvement of local utility representatives in marketing and project development work with end-use customers.
- Contacts emphasized the need for flexibility around free-ridership, – recognizing there may be projects that fall within these criteria that truly will not happen otherwise.

Recommendation 6: Empower ConAug Program Staff to Make Final Decisions

Conservation engineers and EERs need to be empowered to make decisions when they represent the program to utilities, so that utility staff will have more confidence about what Bonneville will accept and thus will have confidence about what they can offer their end-use customers.